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ABSTRACT

When states prepare their budgets, they usually base revenue and expenditure projections upon forecasts of national and state economic and demographic trends. This brief presents findings of a Center for the Study of the States survey that asked state budget offices what they were assuming for many key variables. The survey obtained 41 state forecasts, most of which were used to prepare official executive budget projections for 1996-97. The most commonly forecasted state-level variables included employment (39 states), nominal personal income (41), Medicaid caseloads (25), Aid to Families with Dependant Children (AFDC) caseloads (29), and prison populations (27). State budget-office forecasts of the national economy were slightly more conservative than those of private forecasters. The median budget forecast of 1996 real GDP growth was 2.4 percent, slightly below the comparable Blue Chip consensus of 2.6 percent. The states' median forecast of 1996 consumer price inflation was 2.8 percent, compared to the median Blue Chip forecast of 2.9 percent. States expect a significant slowdown in corporate profits over the next 2 years, with eight states expecting declines in 1996. States do not appear to suffer from a "provincial illusion": fast-growing states were not more optimistic about the national economy than slow-growing states. Finally, many states are expecting declines in AFDC caseloads in the next 2 years. More than 60 percent of reporting states expect a decline in 1997, with Delaware's anticipated decline of 22 percent by far the largest. Two tables and three figures are included. (LMI)

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STATE FISCAL BRIEF

Center for the Study of the States
Nelson A. Rockefeller Institute of Government

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State Budgetary Assumptions

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HIGHLIGHTS

- State budget-office forecasts of the national economy were slightly more conservative than those of private forecasters. The median budget forecast of 1996 real GDP growth was 2.4%, slightly below the comparable Blue Chip consensus of 2.6%.
- The states' median forecast of 1996 consumer price inflation was 2.8%.
- States expect a significant slowdown in corporate profits over the next two years, with eight states expecting declines in 1996.
- States do not appear to suffer from a "provincial illusion": fast growing states were not more optimistic about the national economy than slow-growing states.
- Many states are expecting declines in AFDC caseloads in the next two years. More than 60% of reporting states expect a decline in 1997, with Delaware's anticipated decline of 22% by far the largest.

ECONOMIC FORECASTS AND STATE BUDGETS

When states prepare their budgets, they usually base revenue and expenditure projections upon forecasts of national and state economic and demographic trends. For example, a state may base its income tax withholding estimate upon a forecast of wage growth in the state, which in turn may depend on the national economic outlook and state-specific factors. Likewise, a state's projected expenditures on Medicaid may hinge upon its forecast of Medicaid caseloads, which in turn may depend partly on demographic projections.

The assumptions states make about these trends can have far-reaching implications for state tax policy and services. For example, if a state forecasts strong economic growth, legislators might choose to enact a tax cut or to raise services, based on the expectation of higher revenue. If that assumption turns out to be incorrect, that state could wind up with a budget shortfall.

The Center for the Study of the States recently surveyed state budget offices to find out what they were assuming for

many key variables. The results of our survey are described below.

WHAT DO STATES FORECAST?

We obtained 41 state forecasts: 38 from our survey, and three from state budget documents.¹ Most of the forecasts were prepared in January 1996 or earlier and were used to prepare official executive budget projections for 1996-97. Some are being updated as of this writing, but most will not be updated again until later this year.

Forecasting processes vary from state to state, but a typical approach is for a state to develop a national economic forecast and to use that forecast to drive forecasts of state-level variables such as employment, income, and unemployment which in turn drive revenue and expenditure estimates. Nine states based their national economic forecasts upon forecasts by private forecasting firms, with Wharton Econometric Forecasting Associates (WEFA) cited most frequently, followed by Data Resources Incorporated (DRI) and Laurence

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H. Meyer & Associates. Other states appear to have developed their own forecasts. Some forecasts are developed by a single state agency, perhaps with outside advice, and others are the product of a forecasting advisory board or commission.

Most states prepare specific (or point) estimates for each forecasted variable, but that is not the only possible approach: Judging by its executive budget, Rhode Island uses ranges of forecasts for economic variables, although it develops point estimates of revenue and expenditures. (Unfortunately, this precluded us from including Rhode Island in our analysis below.)

All 41 states forecasted state personal income, and almost all forecasted state employment, national consumer price inflation, and national real gross domestic product (GDP). In addition, most states provided national forecasts of nominal GDP, personal income, retail sales, wages, corporate profits, and the unemployment rate and state forecasts of retail sales, wages, and the unemployment rate. Finally, many states forecasted variables that are important to state budgets but that are not normally included in private forecasters' economic models: most states forecasted state Medicaid caseloads, AFDC ("welfare") caseloads, and the prison population; a handful of states also forecasted capital gains income, which can be important to income tax forecasts.

We asked for calendar-year forecasts where possible, so that numbers would be comparable across states and with private forecasts. Unless noted otherwise, our discussion below focuses on forecasts that were prepared on a calendar-year basis.

Table 1 on page 4 lists forecasts of key national variables, and Table 2 on page 5 lists forecasts of state variables.

FORECASTS OF THE NATIONAL ECONOMY

Real Gross Domestic Product

Real GDP is the broadest measure of the national economy, and it was forecasted by 36 of the 41 states. The median forecast was for 2.4% growth in 1996, picking up slightly to 2.5% in 1997.² The 1996 forecast was slightly more conservative than the widely followed Blue Chip "consensus" of about 50 private forecasters published in December -- about the time that many states prepared their forecasts -- which called for median growth of 2.6%. (A comparable Blue Chip forecast for 1997 was not available.)

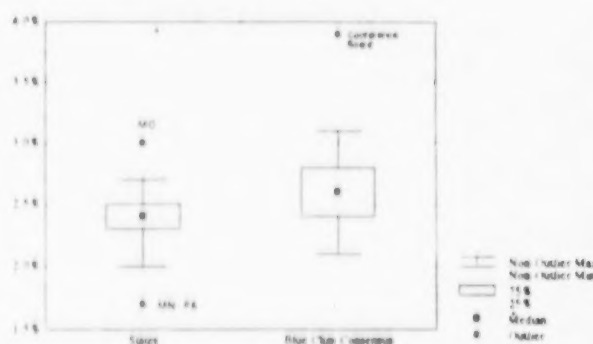
The states' real GDP forecasts were tightly clustered, with half of the forecasts falling in the narrow range between 2.3% and 2.5%. By contrast, as shown in Graph 1, the private forecasters were more dispersed, with half of the forecasts falling in the broader range between 2.4% and 2.8%. Apparently state forecasters have more of a herd instinct than private forecasters.³ Although both state and private forecasters are aware of the "consensus" when they prepare their forecasts, states may consider the risks of maverick forecasts to be greater: a forecast that is far from the consensus can cause state revenue and expenditure estimates to vary by tens or even hundreds of millions of dollars depending on the state, can require large shifts in tax and expenditure policies, and can subject states to extensive criticism.

The relative conservatism of state forecasts also can be

seen in the outlier forecasts. The most optimistic state was Missouri, forecasting 3.0% growth in the national economy. This was well below the most optimistic private forecast of 3.9%. The most pessimistic states were Minnesota and Pennsylvania, both of which forecasted 1.7% growth in real GDP -- slightly below the lowest private forecasts of 1.8%.

States' 1997 forecasts were marginally higher than their 1996 forecasts, with half of the real GDP forecasts falling in the range between 2.4% and 2.6%. Pennsylvania's forecast, which was based on a low-growth scenario prepared by WEFA (headquartered in Pennsylvania), was by far the lowest: their forecast of 1.1% growth was much lower than the next-lowest forecast of 2.1%.

GRAPH 1
FORECASTS OF 1996 GROWTH
IN REAL GDP



Inflation

States expect national inflation to be subdued, at about 2.7% in 1996 and 2.9% in 1997, as measured by the consumer price index (CPI-U). Half of the 1996 inflation forecasts fell between 2.5% and 2.9%. The lowest state (Alabama) expected inflation of 2.1%, and the highest (Montana) expected price increases of 3.5%. The median Blue Chip forecast of CPI inflation was 2.9%.

Other variables

States' median nominal GDP forecast was for 4.6% growth in 1996 and 4.7% growth in 1997; personal income was expected to grow slightly faster than nominal GDP, and corporate income is expected to grow slower than GDP. In fact, states anticipated a significant slowdown in corporate profits from the rapid growth witnessed in recent years, with median growth of only 3.3% in 1996 and 3.4% in 1997. Eight states expected corporate profits to decline in 1996, and five states expected declines in 1997.

States expected retail sales to grow a bit more slowly than personal income, with median growth of 4.6% in 1996 and 4.7% in 1997.

Finally, many states expected the unemployment rate to rise slightly in 1997, and no state expected it to fall. The median forecast, however, increased only slightly between 1996 and 1997: rising from 5.7% to 5.8%.

Are states' national forecasts biased?

We wondered whether states with quickly growing state economies would be more optimistic about the national economy than states with slow growing economies. We attempted to get at this question in two ways: by comparing national real GDP forecasts to recent state employment growth, and by comparing national forecasts to a momentum index that measured the extent to which a state economy was accelerating or slowing down. We were pleased to see that by either measure, national forecasts did not seem biased by recent state economic performance: fast growing or accelerating states did not have higher national forecasts than slow growing or decelerating states.⁴ States do not appear to suffer from a "provincial illusion."

There was no apparent regional pattern to the national forecasts.

FORECASTS OF STATE ECONOMIES

The most commonly forecasted state-level variables were employment (39 states), nominal personal income (41), Medicaid caseloads (25), AFDC caseloads (29), and prison populations (27).

The median forecast of state employment growth in 1996 and again in 1997 was 1.9%. As Graph 2 shows, the states in the Far West, Southwest, Rocky Mountain, and Southeast regions generally expected their economies to grow faster than average in 1996, while the states in the Northeast, Mid Atlantic, Plains, and Great Lakes regions generally expected slower than average growth. This pattern generally is consistent with recent trends. Forecasts for 1997 show a similar pattern, with Pennsylvania having the lowest forecast at 0.3%.

This no doubt reflects the combined effect of recent weakness in the state's economy and the fact that Pennsylvania was basing its state forecast on the weakest national forecast.

Graph 3 views 1996 employment forecasts from a different perspective, showing forecasts of state growth in comparison to forecasts of national growth. States that are above the line on the graph forecasted faster growth in their state than they expected for the nation, and states below the line expected to grow more slowly than the nation.

Personal income forecasts followed a similar regional pattern, and the range was quite broad, especially in 1996: the highest state (Nevada) expected growth of 9.5%, while the lowest state (Iowa) expected growth of 1.3%. Medicaid and AFDC caseloads forecasts were very low relative to experience in recent years. Median Medicaid caseload growth was projected to be 2.3% in 1996 and 2.5% in 1997, with an extremely broad range: the highest state (Nevada) expected 1996 growth of 15%, while the lowest state (Illinois) expected a 5.1% decline. AFDC forecasts were even more divergent. Nevada was again the highest state, with a 1996 forecast of 11% growth, while Alabama expected a decline of 11%. Only three of the reporting states expected caseload growth in 1996. Forecasted declines in 1997 were more severe, with Delaware expecting a 22% decline. Eighteen of the 29 reporting states (more than 60%) expected a decline in AFDC caseloads in 1997.⁵ The median forecast of prison population growth was 6.2% for 1996 and 6.0% for 1997. Of the 27 states reporting prison population

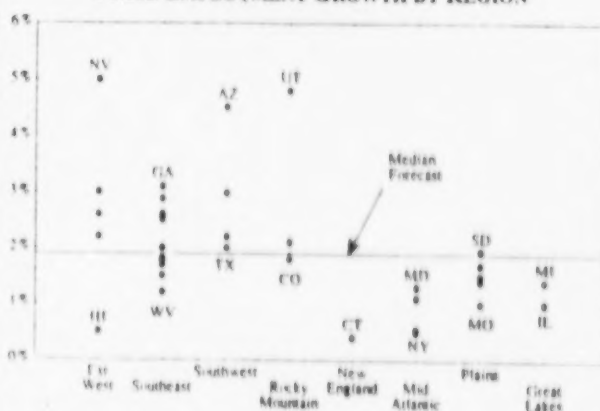
forecasts, only Pennsylvania expected a decline (-5.1%) in 1996, and all states but Nebraska and North Dakota expected growth.⁶ Kansas, Louisiana, and Utah expected double-digit growth in 1996, and California, New Mexico, Idaho, and Utah expected double-digit growth in 1997.

Finally, eight states provided forecasts of 1996 capital gains income, which affects personal income tax revenue. The forecasts ranged from a low of 4.7% (Montana) to a high of 17.5% (West Virginia).

CONCLUSIONS

In general, state budget forecasts of the national economy in 1996 were slightly more conservative than private forecasts. Over the next two years, states expect low inflation and a significant slowdown in corporate profits. These assumptions do not appear to be affected by the state's own recent economic condition. All the respondents expect some increase in their own state's employment and personal income. Many states expect low growth or even declines in Medicaid and AFDC caseloads, and fairly high prison population growth.

GRAPH 2
FORECASTS OF 1996
STATE EMPLOYMENT GROWTH BY REGION



GRAPH 3
FORECASTS OF 1996
NATIONAL & STATE EMPLOYMENT GROWTH

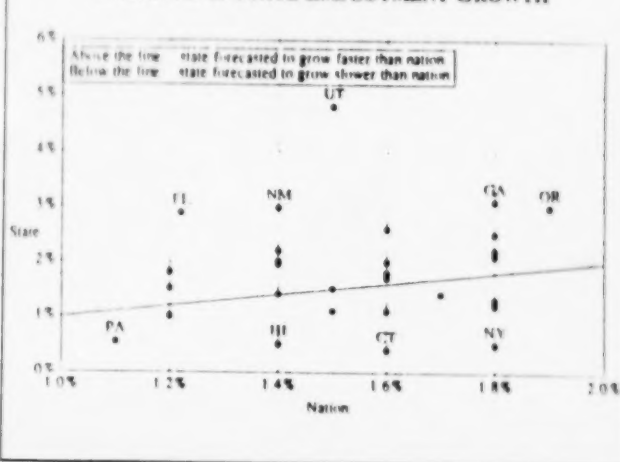


Table 1
Percent Change from the Previous Year: National Variables

	Real GDP		Nominal GDP		Employment		Retail Sales		Personal Income		Corporate Profits		CPI-U		Unemployment Rate	
	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
United States																
New England																
Connecticut (a)	2.8	2.3	4.5	4.6	1.6	1.4	-	-	5.0	4.6	-	-	2.6	2.5	5.7	5.9
Mid Atlantic																
Delaware (a)	2.8	2.3	-	-	1.6	1.4	4.7	4.5	5.0	4.6	0.8	4.4	2.6	2.5	-	-
Maryland	2.5	2.6	-	-	1.8	1.6	-	-	5.0	5.3	(1.1)	(1.0)	3.0	3.0	5.6	5.8
New Jersey	2.5	2.4	-	-	1.5	1.4	3.6	3.3	4.5	4.8	3.6	1.9	2.5	2.4	5.8	6.0
New York	2.5	2.6	4.6	4.6	1.8	1.6	4.8	4.0	4.9	4.7	2.8	3.4	3.0	3.0	5.6	5.8
Pennsylvania (b)	1.7	1.1	3.8	3.5	1.1	0.6	-	-	4.2	4.3	(0.8)	(2.3)	2.5	2.4	6.1	7.1
Great Lakes																
Illinois (b,c)	2.0	2.3	4.2	4.6	1.2	1.6	4.8	4.5	4.3	4.3	10.1	6.6	2.3	2.0	5.7	5.8
Indiana	2.7	2.4	4.5	5.1	-	-	-	-	5.0	5.0	-	-	-	-	-	-
Michigan	2.4	2.7	-	-	-	-	-	-	-	-	-	-	2.6	3.1	5.7	5.7
Plains																
Iowa	2.6	-	-	-	-	-	-	-	-	-	-	-	2.9	-	5.7	-
Kansas	-	-	-	-	-	-	-	-	-	-	-	-	3.1	3.1	-	-
Minnesota	1.7	2.3	4.1	4.6	1.2	1.6	-	-	4.7	4.7	(1.7)	2.5	2.6	2.7	5.8	5.8
Missouri (b)	3.0	2.5	-	-	-	-	4.8	4.9	-	-	1.4	5.1	2.7	2.8	-	-
Nebraska	2.4	2.4	4.4	4.7	1.4	1.5	2.7	2.5	4.4	4.6	3.3	4.3	2.5	2.3	5.8	5.9
North Dakota (b)	2.4	2.2	5.4	5.3	1.7	1.7	-	-	-	-	5.0	4.2	3.0	3.1	6.1	6.2
South Dakota	2.1	2.7	4.2	4.7	1.4	1.3	2.7	2.5	4.6	4.4	(2.0)	2.5	2.7	2.7	5.7	5.7
Southeast																
Alabama	2.1	2.7	-	-	-	-	3.2	2.6	4.6	4.4	-	-	2.1	2.3	5.6	5.8
Arkansas	2.5	2.6	4.6	4.5	1.8	1.6	4.6	3.9	4.6	4.4	(2.1)	2.5	2.9	2.9	5.6	5.8
Florida	2.2	2.8	4.1	4.5	1.2	1.6	-	-	4.7	4.7	(1.6)	2.5	2.6	2.7	5.8	5.9
Georgia	2.3	2.1	4.9	4.6	1.8	1.7	5.5	5.6	5.7	5.6	8.2	6.0	2.7	2.9	-	-
Kentucky	2.5	2.6	4.6	4.5	1.8	1.6	5.1	3.9	4.9	4.6	(1.1)	(1.0)	2.9	2.9	5.6	5.8
Louisiana	2.5	2.5	4.8	5.3	1.6	1.7	4.4	4.3	5.4	4.9	3.3	4.3	2.5	2.5	5.8	5.9
Mississippi (b,c)	2.0	2.3	4.2	4.6	1.2	1.6	4.5	4.6	4.4	4.6	3.3	4.3	2.3	2.0	5.7	5.8
North Carolina (a)	2.0	2.6	-	-	1.6	1.7	-	-	-	-	-	-	3.0	3.3	-	-
South Carolina	2.0	2.1	5.0	5.1	1.5	1.3	5.3	5.0	5.2	5.1	4.0	3.8	3.0	3.6	5.7	5.8
Virginia (b)	2.4	2.4	4.9	5.2	1.6	1.7	5.0	4.9	5.0	4.8	1.8	4.7	2.7	2.7	6.0	6.0
West Virginia	2.5	2.8	4.5	4.7	1.8	1.6	4.0	3.9	5.0	4.4	(2.0)	(0.5)	3.0	2.9	5.6	5.8
Southwest																
Arizona (b)	-	-	-	-	-	-	4.6	4.7	-	-	-	-	-	-	-	-
New Mexico (b)	2.4	2.4	4.6	4.7	1.4	1.5	-	-	4.5	4.9	5.6	1.5	2.5	2.4	5.8	6.0
Oklahoma	2.5	2.6	5.1	4.7	1.8	1.6	5.3	5.1	4.9	4.6	-	-	2.9	2.9	5.6	5.8
Texas	2.4	2.2	-	-	1.4	1.3	2.7	2.5	4.6	4.4	-	-	3.1	3.0	5.7	5.7
Rocky Mountain																
Colorado	2.4	2.3	5.0	5.4	1.6	1.5	5.3	5.7	5.1	5.6	6.8	6.7	2.9	3.2	5.5	5.5
Idaho	2.5	2.6	4.6	4.5	1.8	1.6	-	-	4.9	4.6	-	-	2.9	2.9	-	-
Montana	-	-	-	-	-	-	-	-	6.3	6.0	4.9	4.9	3.5	3.5	-	-
Utah	2.5	2.4	4.5	4.7	1.5	1.4	5.2	4.5	4.5	4.8	3.6	1.9	2.5	2.2	5.8	6.0
Wyoming	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Far West																
California	2.5	2.6	4.5	5.1	1.6	2.1	4.6	5.0	4.7	4.9	5.0	5.8	2.8	3.2	5.8	6.6
Hawaii	2.4	2.5	4.4	4.5	1.4	1.4	-	-	4.3	4.5	2.0	(0.4)	2.7	2.6	5.9	6.1
Nevada (a)	-	-	-	-	-	-	-	-	-	-	-	-	3.2	3.1	-	-
Oregon (b)	2.4	2.6	-	-	1.9	1.6	-	-	4.8	4.8	-	-	2.9	3.0	-	-
Washington	2.1	2.7	4.2	4.5	1.4	1.3	3.8	3.9	4.6	4.4	-	-	2.7	2.7	5.7	5.7

Notes: (a) Economic forecast is for fiscal year; (b) Outside forecasting service used;

(c) Forecast for real economic variables is based on chain-weight deflators.

The following states are not included above: Alaska, Maine, Massachusetts, New Hampshire, Ohio, Rhode Island, Tennessee, Vermont, Wisconsin.

Table 2
Percent Change from the Previous Year: State Variables

	Employment		Personal Income		Wages		Unemployment Rate		Capital Gains		Medicaid Caseload		AFDC Caseload		Prison Population	
	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
United States																
New England																
Connecticut (a)	0.4	1.1	4.8	4.8	-	-	5.3	5.4	-	-	3.5	5.0	(4.3)	(5.0)	2.6	2.7
Mid Atlantic																
Delaware (a)	1.1	1.0	4.7	4.8	3.5	4.2	-	-	-	-	12.9	3.0	(0.0)	(22.2)	-	-
Maryland	1.3	1.4	4.8	4.8	4.4	4.6	5.2	5.1	-	-	0.2	0.4	(5.9)	(1.0)	7.7	2.5
New Jersey	1.1	1.0	4.2	4.2	4.2	4.2	5.9	6.2	15.0	15.0	1.5	2.2	(7.1)	(2.3)	4.6	8.8
New York	0.5	0.5	3.9	3.8	3.8	3.6	6.8	6.7	7.0	-	3.5	-	(3.1)	-	1.4	2.1
Pennsylvania	0.5	0.3	4.3	3.7	3.5	3.0	6.3	7.2	-	-	(1.1)	(5.9)	(6.7)	(5.2)	(0.4)	2.0
Great Lakes																
Illinois (c)	1.0	1.2	4.0	4.0	4.3	3.6	5.6	5.6	-	-	(5.1)	1.5	(3.7)	3.2	3.1	6.2
Indiana	-	-	4.4	4.7	-	-	-	-	-	-	-	-	-	-	-	-
Michigan	1.4	1.5	4.2	4.8	3.7	4.5	5.2	5.6	-	-	1.8	2.5	(10.6)	(8.3)	4.0	5.7
Plains																
Iowa	-	1.7	1.3	2.1	2.6	2.5	-	-	-	-	-	-	-	-	-	-
Kansas	1.7	1.3	5.0	4.6	5.1	5.0	4.9	4.9	-	-	5.4	4.9	(7.6)	(2.8)	10.9	7.9
Minnesota	1.5	1.6	5.0	4.1	4.5	4.2	-	-	5.0	5.0	-	-	-	-	-	-
Missouri	1.0	1.2	5.6	4.4	-	-	-	-	-	-	-	-	-	-	-	-
Nebraska	1.4	1.4	3.2	3.5	3.2	3.6	2.4	2.5	-	-	0.0	0.0	0.0	0.0	0.0	0.0
North Dakota	1.4	1.2	5.4	6.0	-	-	3.7	3.7	-	-	0.0	0.0	(2.5)	(2.5)	0.0	0.0
South Dakota	2.0	2.3	4.6	4.3	4.7	5.1	-	-	-	-	-	-	-	-	7.0	7.0
Southeast																
Alabama	2.0	1.8	5.7	5.2	-	-	6.1	6.0	-	-	0.8	1.1	(11.2)	(9.7)	5.1	5.9
Arkansas	2.5	2.2	6.1	5.6	6.8	6.1	4.8	4.9	-	-	2.6	3.0	(4.5)	(4.0)	8.2	1.8
Florida	2.9	2.9	6.1	6.3	6.4	6.4	5.9	5.9	-	-	-	1.9	-	(0.8)	-	7.7
Georgia	3.1	2.4	6.9	6.7	6.1	5.6	-	-	-	-	3.6	3.2	0.0	(1.7)	-	4.5
Kentucky	2.5	2.8	5.8	5.1	7.4	5.8	-	-	-	-	-	-	-	-	-	-
Louisiana	2.6	2.2	5.5	5.3	5.1	5.1	-	-	-	-	-	-	-	-	-	-
Mississippi (c)	1.8	1.9	4.7	4.7	4.2	4.4	6.2	6.4	5.3	4.4	-	-	(2.0)	(10.0)	11.0	4.0
North Carolina (a)	2.0	2.1	5.4	5.8	-	-	-	-	-	-	-	-	-	-	-	-
South Carolina	1.5	1.5	5.0	5.0	3.5	3.5	5.0	5.5	-	-	1.1	1.3	(2.5)	(2.4)	-	-
Virginia	1.7	2.3	4.1	4.7	3.9	5.1	4.6	4.6	-	-	1.0	1.0	(9.0)	(2.0)	9.0	8.0
West Virginia	1.2	1.5	4.6	4.5	4.5	4.5	8.0	8.0	17.5	5.0	7.0	7.1	(5.3)	1.8	7.0	7.0
Southwest																
Arizona	4.5	3.8	7.5	6.5	-	-	-	-	-	-	-	-	-	-	-	-
New Mexico	3.0	2.8	5.7	5.6	5.9	5.8	6.3	6.6	-	-	-	-	-	4.3	-	11.1
Oklahoma	2.2	2.1	4.3	4.4	4.0	4.4	4.7	4.6	-	-	-	-	(2.7)	0.0	9.8	7.7
Texas	2.0	2.1	6.3	6.3	5.1	5.3	5.8	5.9	-	-	0.9	4.0	(5.5)	1.2	7.0	5.0
Rocky Mountain																
Colorado	1.8	1.6	7.0	7.1	-	-	4.6	4.8	-	-	2.3	1.9	(7.2)	(4.2)	6.1	7.2
Idaho	2.1	2.8	5.1	5.5	5.2	6.1	-	-	-	-	3.6	4.7	7.1	4.9	6.2	10.0
Montana	2.1	1.9	4.8	5.0	5.7	5.5	-	-	4.7	4.7	5.0	5.0	3.1	0.6	6.4	6.0
Utah	4.8	4.2	8.5	8.0	9.3	7.8	3.5	3.6	14.0	14.0	6.5	6.5	(9.4)	(11.3)	11.6	10.4
Wyoming	-	-	3.8	3.2	-	-	-	-	-	-	-	-	-	-	-	-
Far West																
California	2.6	2.3	5.7	5.9	5.6	5.8	7.3	6.9	5.3	5.3	1.5	1.8	0.0	0.1	5.2	11.5
Hawaii	0.5	1.7	4.1	5.1	3.0	4.6	5.5	5.0	-	-	-	-	-	-	-	-
Nevada (a)	5.0	5.0	9.5	9.0	-	-	-	-	-	-	-	-	-	-	-	-
Oregon	3.0	2.7	5.9	6.1	6.4	6.4	-	-	-	-	14.5	11.6	14.4	11.4	-	-
Washington	2.2	2.6	5.4	5.2	5.9	5.4	6.3	6.0	-	-	13.9	6.3	(1.8)	0.6	1.5	5.0

Notes: (a) Forecast is for fiscal year; (c) Forecast for real economic variables is based on chain-weight deflators.
The following states are not included above: Alaska, Maine, Massachusetts, New Hampshire, Ohio, Rhode Island, Tennessee, Vermont, Wisconsin.

ENDNOTES

1. Arizona, Missouri, and North Carolina.
2. Based on 31 states with comparable forecasts; excludes forecasts prepared on a fiscal year basis, rather than a calendar year, and excludes forecasts prepared using chain-weighted price deflators. Fiscal-year forecasts are excluded for all national variables discussed below and chain-weighted forecasts are excluded for all real national variables (chain weights are not relevant for nominal variables). Tables 1 and 2 note which state forecasts were prepared on a fiscal year basis, and which reflect chain-weighted price deflators. Note: Real GDP forecasts prepared on a chain-weighted basis typically are lower than those that are not, all else being equal.
3. If many states used the same outside forecast, that might reinforce the herd effect. However, this conclusion holds even if we exclude states that used national forecasts from private forecasters.
4. This conclusion also holds if we exclude states using privately prepared national forecasts. (Graphs available upon request.)
5. Some of the projected declines or lower increases are due to proposed changes in the welfare policies of the states involved, such as cutting off benefits after a certain point or refusing extra benefits to women who have more children while on AFDC.
6. Nebraska and North Dakota appear to have made an explicit decision to assume no growth for either 1996 or 1997, rather than making a forecast in the traditional sense.

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